UNIVERSITY OF ILLINOIS EXTENSION

WEEKLY OUTLOOK

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CROP PRICES – WHAT NOW?

The rally in corn, soybean, and wheat futures prices that began in mid-December appears to have stalled for the time being. Prices have traded in a sideways pattern so far in February. The questions now being posed are, Is the rally over? or, Is this just a pause in front of a larger price increase?

Fundamentally, the improvement in moisture conditions in South American growing areas and in some parts of the U.S. have contributed to the recent price stall. Confirmation of prospects for a large Australian wheat crop and a slow down in the rate of U.S. corn export sales have also been important developments. In general, however, the market believes that world demand for grains and oilseeds is strong and will continue to improve. Recent Chinese purchases of U.S. soybeans is a positive development, as are the ongoing improvements in some southeastern Asian economies and prospects for higher livestock prices.

The likelihood that China will be accepted in the World Trade Organization and discontinue large subsidized export sales of corn also suggests that Asian demand for U.S. corn will increase in the year ahead. If China reduces corn exports, however, it could be argued that corn production there will decline in favor of other commodities, particularly soybeans. A switch to other crops could damage export demand for those crops, all other things unchanged.

Some also point to recent price gains in other raw commodities and prospects for a higher rate of inflation in the U.S. as reasons to expect higher grain and oilseed prices. Those relationships, however, are not strong. Prices of other commodities, crude oil and gold for example, have increased for solid fundamental reasons, primarily supply reduction. Those factors are specific to those commodities. The earlier rally attempt in coffee was related to South American supply concerns, but failed when weather improved. Grain and oilseed prices will be influenced by relevant fundamentals, not prices of other commodities.

Similarly, a higher rate of inflation in the general U.S. economy does not necessarily project to higher commodity prices. Rapid economic growth and increased demand that fuels inflation can also support commodity demand and prices, but demand can be “trumped” by supply. Such was the case at times in the 1970s and 1980s.

Fundamentally, the current situation for grains and oilseeds is stronger than about anytime in the last two years. World consumption is increasing and world wide stock levels are declining. Prices are at low levels and world economic growth is occurring. Many market participants now expect further price increases, judging current prices to be under-valued in a more favorable supply-demand environment. That is, many see the current situation as a pause in a longer term trend increase.

The major question to be answered is on the supply side. How big will crops be in 2000? The primary focus will be on U.S. weather, planting intentions, and crop development. The debate about potential magnitude of corn and soybean acreage continues, with some arguing that corn acreage will once again be reduced in favor of soybean acreage. If dryness persists into planting time, a case will be made for below trend yields in 2000 and some further draw down of stocks.

Prospects for higher prices suggests that producers move slowly in pricing the 2000 crop. If prices move sharply higher in the spring, some consideration might be given to options strategies to protect those higher prices moving into the growing season. Producers may also want to consider crop or revenue insurance instruments to reduce production risks. On the other side of the equation, the current pause in the price rally, or any short term price weakness, might be an opportunity for livestock producers to capture some price protection of feed needs into the summer and fall months.

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